

IRS News Release

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National Taxpayer Advocate Releases Report to Congress; Identifies Priority Issues for Upcoming Year

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WASHINGTON — National Taxpayer Advocate Nina E. Olson today delivered a report to Congress that identifies the priority issues the Office of the Taxpayer Advocate will address in the coming fiscal year. These issues include the rules governing the use or disclosure of tax return information by return preparers, a recently imposed requirement that taxpayers submitting lump-sum offers in compromise make a down payment of 20 percent of the amount of the offer, IRS guidelines in evaluating “non-hardship effective tax administration” offers, and the importance of safeguarding taxpayer rights as the IRS rolls out its private debt collection initiative. Olson also released a report, presented as Volume II, that examines the role the IRS plays in facilitating the refund anticipation loan (RAL) industry, and makes recommendations to improve refund delivery to taxpayers, including the “unbanked.”

The Advocate’s report, which is required by law, notes that the IRS is under significant pressure both to reduce the tax gap and to maintain and improve taxpayer services. The report commends the IRS for adopting a more strategic approach to these objectives. “I am concerned, however, that the IRS is approaching its taxpayer service and enforcement initiatives on almost entirely separate tracks,” Olson writes. “[I]n the IRS today, enforcement employees work on enforcement initiatives and taxpayer service employees work on taxpayer service initiatives, and never the twain shall meet.” Citing the offer in compromise as an example, Olson maintains that incorporating high quality service within enforcement initiatives will ultimately help bring noncompliant taxpayers into compliance and thus reduce the tax gap.

The report sets out the objectives of the Office of the Taxpayer Advocate for the upcoming fiscal year and provides substantive analysis of issues as well as statistical information. The report identifies four areas for particular emphasis in FY 2007:

1. Rules Governing the Use or Disclosure of Tax Return Information by Return Preparers. The statute and regulations governing what tax preparers may do with confidential tax return information they receive from their clients were written in the 1970s. To make the rules more applicable to e-filing and other changes that have occurred over the past 30 years, the IRS issued proposed regulations late last year. Olson states that the proposed regulations provide more protection to taxpayers than the existing regulations. She acknowledges that some improvements to the proposed rules can be made, and she advocates for limiting the use and disclosure of tax return information solely to instances where it is necessary for tax-administration purposes.

2. New Partial Payment Requirement with Submissions of Offers in Compromise. A taxpayer who is unable to pay his or her tax liability in full may seek to compromise the debt by submitting an “offer in compromise.” The offer program is a good deal for both the government and the taxpayer. The government benefits because it frequently collects more than it would in the absence of the program and the taxpayer is induced to pay taxes on time and in full in the future; a taxpayer whose offer is accepted must remain fully compliant for 5 years into the future or face reinstatement of the compromised tax debt. The taxpayer benefits because he or she is able to make a fresh start. Legislation enacted this year will require taxpayers who submit “lump sum” offers to make a down payment of 20 percent of the amount of the offer with the submission. Olson writes that this requirement “will reduce the number of viable offers the IRS receives, increase the number of accounts not resolved, and reduce the amount of revenue collected.” Her office is working with the IRS and the Treasury Department to implement the requirement, and she intends to make a legislative recommendation to repeal the requirement in her year-end report to Congress.

3. Guidance on Non-Hardship Effective Tax Administration Offers. In 1998, Congress expanded the authority of the IRS to compromise tax debts by directing it to consider equity, public policy, and hardship in cases where doing so would promote effective administration of the tax laws. The Advocate has criticized the IRS in prior reports for reading this authorization too narrowly. In 2004, the IRS developed unsigned and unpublished internal guidance that it has been using to evaluate non-hardship offers. The Advocate writes that the IRS should make this guidance public to assist taxpayers and their representatives in determining whether they may qualify for relief and to make clear what standards they need to meet. The Advocate also believes that this guidance should be made more widely available within the IRS. This year, she will push within the IRS for broader dissemination of the guidance.

4. Private Debt Collection Initiative. In 2004, Congress granted IRS the authority to use private debt collectors to collect certain tax debts, and the IRS is now working actively to implement the initiative in the coming months. Olson has previously stated her opposition to this initiative, citing risks to taxpayer privacy and confidence in the federal tax system. In FY 2007, Olson’s office will monitor the initiative closely – with respect to both specific cases and systemic issues – and will immediately share any significant observations or concerns with the IRS and the Congress. Olson’s office will also try to track the amount of “re-work” the initiative creates for the IRS and taxpayers to help facilitate comprehensive and accurate return-on-investment calculations to assist in evaluating the program.

In Volume II of the report, Olson states that the IRS facilitates RALs by not conducting sufficient oversight of Electronic Return Originators (EROs) that retail RALs, by not promulgating stricter protections for taxpayer privacy with respect to the Debt Indicator, and by failing to develop a fast, secure, and free refund delivery option for “unbanked” taxpayers. Moreover, she states that the IRS’s rule permitting an ERO to purchase up to a 49 percent ownership interest in RALs creates a conflict between the ERO’s and the taxpayer’s financial interests.

The National Taxpayer Advocate is required by statute to submit two annual reports to the House Committee on Ways and Means and the Senate Committee on Finance. The statute requires these reports to be submitted directly to the Committees without any prior review or comment from the Commissioner of Internal Revenue, the Secretary of the Treasury, the IRS Oversight Board, any other officer or employee of the Department of the Treasury or the Office of Management and Budget. The first report, due on June 30 of each year, must identify the objectives of the Office of the Taxpayer Advocate for the fiscal year beginning in that calendar year. The second report, due on December 31 of each year, must identify at least 20 of the most serious problems encountered by taxpayers, discuss the 10 tax issues most frequently litigated in the courts during the prior year, and make administrative and legislative recommendations to resolve taxpayer problems.

About the Taxpayer Advocate Service

The Taxpayer Advocate Service is an independent organization within the IRS, led by the National Taxpayer Advocate. Each state has at least one Local Taxpayer Advocate, who is independent of the local IRS office and reports directly to the National Taxpayer Advocate.

The Taxpayer Advocate Service helps individual and business taxpayers resolve problems with the IRS by:

- ◆ Ensuring that taxpayer problems not resolved through normal IRS channels are promptly and impartially handled;
- ◆ Assisting taxpayers who are facing hardships;
- ◆ Identifying issues that impact taxpayer rights, increase taxpayer burden, or otherwise create problems for taxpayers and bringing these issues to the attention of IRS management; and
- ◆ Recommending administrative and legislative changes through the National Taxpayer Advocate's Annual Report to Congress.

Taxpayers who have tried to resolve tax problems with the IRS and are still experiencing delays or facing economic harm may request the assistance of the Taxpayer Advocate Service.

In the TAS program, taxpayers will receive free, independent, confidential, and personalized service from a knowledgeable Taxpayer Advocate. The Advocate will listen to their circumstances, help them understand what steps are required to resolve their issues, and work with them every step of the way until their problems are resolved to the fullest extent permitted by law.

Taxpayers can gain quick access to the Taxpayer Advocate Service by calling its toll-free number at 1-877-777-4778 (TTY/TTD 1-800-829-4059). Alternatively, taxpayers can call or write to their Local Taxpayer Advocate, whose address and phone number

are listed in local telephone directories and in Publication 1546, How to Get Help With Unresolved Tax Problems.

Links:

- National Taxpayer Advocate's 2007 Objectives Report to Congress — <http://www.irs.gov/advocate/article/0,,id=159974,00.html>
- [Taxpayer Advocate Service](http://www.irs.gov/advocate/index.html) — <http://www.irs.gov/advocate/index.html>